

Built around you

Entrepreneurial and Private Business Newsletter

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Issue 10 - May 2024

Welcome to our tenth edition of the Entrepreneurial and Private Business (EPB) newsletter! The purpose of these newsletters is to keep you informed of current developments impacting private and family businesses operating in PNG.

Planning ahead

We expected the start of this year to be a challenge for businesses in PNG due to the issues we faced in 2023 continuing into early 2024, the cost of living challenges being faced by families being compounded by the burden of school fee payments, and the need for the Government to meet an increase in tax revenue collections while the economy is treading water. Compounded by this were the challenges and uncertainty we have to face due to the events of 10 January in Port Moresby and other parts of PNG, the fuel crisis created by the uncertainty of supply from Puma in February, and the delay to the Final Investment Decision for the Papua LNG project from 12 May 2024 to 2025 coming through in March 2024. As a consequence we have to address an increase in uncertainty locally against the backdrop of both regional and global geopolitical challenges and a year where the status quo is likely to be significantly tested.

To help you think about the year ahead we have set out the five key priorities for 2024 that PwC Global provided. The full article is [available here](#).



Adopt GenAI

With usage of GenAI tools rising dramatically, now is the time for private companies to **get to grips with GenAI**, work out what it can deliver for them and progress to adoption. The first step is to allocate leadership responsibility for developing an **“early days” GenAI strategy** as part of the overall tech strategy. In many family businesses, the natural choice for this role may be a NextGen member. Our forthcoming PwC NextGen Survey finds that many NextGens see GenAI as a career opportunity in their family business, and that 74% agree it’s a powerful source of transformation.

Accelerate climate action

Across the board, private businesses are behind listed corporations both in progressing climate initiatives and appreciating the business benefits they offer. This came across very clearly in the **27th Global CEO Survey** with private businesses lagging behind listed companies on all of the questions about progress on climate initiatives. It's vital to start seeing climate initiatives as an opportunity to build trust and value, and as a business enabler rather than a cost – for example by improving energy efficiency and investing the savings in innovation to create “clean”, climate-friendly products and services.

Undertake a strategic workforce planning

It's predicted GenAI will **affect 40% of jobs worldwide**. And **PwC research** shows employees – especially younger ones – are eager to learn new skills. So, to realise GenAI's potential, private businesses must put the right skills and capabilities in place while safeguarding their people. This means reviewing the current workforce against future skills needs to identify gaps and opportunities to redeploy and/or retrain staff. Through good workforce planning and interventions, companies will achieve advances like harnessing GenAI to boost efficiency, and upskilling workers to support climate-driven business model changes.

Consider new, external sources of funding

With tough economic conditions forecast to continue in 2024, capital constraints for private businesses are unlikely to ease off. This is especially since **PwC's CEO Survey** shows that 38% of them have made a major acquisition within the past three years, against just 27% of listed companies. As the need for capital increases, one increasingly attractive external source can be private equity (PE): our **recent research by PwC Germany** shows 90% of private businesses are willing to consider PE funding, up from 18% in 2011. Historically family businesses have been hesitant to even consider PE funding. However this is changing with PE investors' showing much greater flexibility over the timing of exits and higher readiness to take minority stakes.

Be more realistic about risks - especially short term ones

Private businesses' more optimistic view of the long-term threats facing them can be a strategic asset, since it makes them more willing to take risks to diversify, adapt and try new things. But they must also be realistic around short-term risks in areas like cybersecurity and GenAI, where listed companies voice much greater concern. In previous years we've discussed the **six paradoxes of leadership**.

In today's world a new paradox has emerged for private business leaders: the ability to simultaneously have a 'corporate' short term focus and an entrepreneurial long term mindset.

While you may think most of these priorities do not apply to your business at the moment, these priorities should be part of your strategic planning so that you can address them in your short and medium term planning. In conjunction with these priorities it would be beneficial to consider how well you have addressed the priorities from last year and the findings from our PwC PNG 3rd Family Business Survey.

In last year's priorities the action list included:



ESG

- Can we articulate in a 60 second elevator pitch how we are incorporating ESG into our business?
- Short term: How are we communicating our values and strategy? A key differentiator for many private and family businesses is the values upon which they are founded and operate. Have we considered if our strategy is still fit for purpose in a world dominated by the Megatrends and ESG, and if it needs to be adapted.
- Long term: How are we factoring in the impact of ESG on our business and its future valuation?



Supply chain

- How well positioned are we for a less globalised world with more localised supply chains?
- Short term: Have we developed scenarios for overcoming our dependence on suppliers and customers in certain countries?
- Long term: What opportunities will open up for new sourcing strategies such as onshoring and nearshoring?



Technology

- Do we need to be more involved with our business-critical IT and cyber agenda rather than leaving it to our internal experts?
- Short term: How are we aligning our technology investments with the threats to resilience?
- Long term: Is our strategy fit for purpose in a platform-driven economy?



Workforce of the future

- Would I honestly recommend working in our private business to family and friends?
- Short term: Are we addressing **the immediate needs and expectations of our people** across aspects like pay, hybrid working, culture, training & development, and providing work that's meaningful and purposeful?
- Long term: Do we have a clear plan for ownership/leadership succession and the future of the business?



Never let a crisis go to waste

- Am I still the best entrepreneur or leader to head up our private business?
- Short term: How effectively are we managing our cash flow and costs – and how alert are we to emerging weaknesses in our supply chain and customer base?
- Long term: Are we considering new funding or ownership opportunities, such as the journey to family equity or private equity investment?

Our PwC PNG Family Business Survey for 2023 focussed on building trust with three stakeholder groups, customers, employees and family members. The suggestions we had to build trust with each group are set out below.

How to build trust with customers

1. Measure and report on non-financial targets
2. Codify, communicate and demonstrate values
3. Consider taking a public stand

How to build trust with employees

1. Communicate the company's purpose and values
2. Deliver on non-financial goals and values
3. Create opportunities for development and upskilling
4. Listen to your people

How to build trust with family members

1. Clearly defining roles and qualifications reduces friction
2. Write a "constitution" establishing what the family wants to achieve and how.
3. A formal governance structure improves clarity and communications.
4. Transparent reporting on non-financial goals shows commitment to deliver.

Recommended actions

- Have leaders that encourage a culture of accountability.
- Have a system in place to gather customer feedback on products and services.
- Protect and consistently communicate about how it uses customer and employee private data.
- Effectively respond to and address data/privacy breaches.
- Have a clear purpose statement and commitment that advances diversity, equity and inclusion.
- Take a public stance on important issues.
- Have a clear and committed ESG strategy.

We would suggest a self-assessment of these matters to help you identify where you are performing well and where there are areas for improvement. We are also happy to discuss these areas with you during our next meeting with you.

Tax update

The IRC has been quite active in the past few months and based on their activity we have set out below an overview of the tax landscape in PNG.

- Please make sure your tax compliance function is working properly. Lodging a form and making a payment is only part of what is required - your team should be making sure the lodgement is assessed and the payment is allocated. Gaps in IRC statements are becoming a bigger headache for many Taxpayers.
- There were a number of audits carried out by Government departments last year (Customs and Labour/Immigration as examples). Now we are seeing more audit activity by the IRC. A number of audits relate to SWT, GST, income tax and business income payments tax and cover 2019 to 2022. There is a significant amount of information also being requested by the IRC.

The audit starting point using data provided by Taxpayers in different remittances and returns lodged with the IRC which seems a reasonable starting point and similar to an approach used in other jurisdictions. It is therefore important that information lodged is therefore accurate as the information will be used by the IRC and every Taxpayer should work on the basis they will be audited at some point in time. Unfortunately there does not appear to be any difference between taxpayers who try their best to be compliant but can make a mistake and those who are deliberately avoiding or evading their tax obligations.

- It would also be great to see a risk based approach applied to the GST credit and refund system. From interactions with the IRC I understand that the number of GST credit and refund claims has increased from 8,000 to 20,000 in about 18 months and is increasing at about a net 4,000 every three months. This is likely to continue to increase in an economy where businesses are struggling to make profits. If you have a GST refund owing or credit transfer outstanding then you need to be conscious that you are one of 24,000 outstanding and the impacts this has on your working capital and additional administrative costs to your business.
- Tax reform may still be coming, but given the events of January 10, I expect further time will be needed to table the revised Income Tax legislation. However, it might be an appropriate time to think about the fairness of our marginal tax rates for individuals, instead of a focus on increasing the minimum wage.
- There is also a lot more information sharing happening not just between the IRC and other government agencies (I am sure you have read the IRC public notice relating to its working with Immigration) but also potentially now between the IRC and other tax jurisdictions (again there have been a few public notices about that too).

IPA Activities

The registrar has advised in its Opportunity issue #1 January 2024, Companies that failed to re-register by 30 November 2023 have been struck off and their status changed to "Removed". It is important that Companies conduct a search of the ORS to check the status of their company as removal of your company may affect your standing with the IRC and financial institutions such as the banks.

Do note that removal of these companies is not the end of their legal life as they can still apply to re-register, however, first they must apply to the Registrar to restore their companies administratively to the registry. They can apply to restore their companies immediately or/and within two years from the date of their removal otherwise it will be compulsory to apply for restoration to the National Court. Companies must apply through the Online Registry System on www.ipa.gov.pg to restore their companies by filing a R-6 application to restore or re-register Local companies and R-7 for overseas companies.

An administration fee of K2,500 is applicable for the R6 and R7.

The application will also require companies to upload their back due (outstanding) annual returns and pay the prescribed fees as follows:

- Local Exempt Companies - K250 per annual return
- Local Reporting Companies - K300 per annual return
- Overseas Companies - K750 per annual return

A late penalty fee of K1,000 will also be applicable for each annual return.

Over the last few months, we have seen most entities (companies, business names, associations, and business groups) be successfully re-registered with the Companies Office and the foreign enterprise unit of the IPA, with only a handful left to be re-registered.

Tax Legislative Changes in the 2024 Budget

The IRC has issued a media release to the public outlining legislative amendments included in the 2024 National Budget.

- K20,000 tax free threshold - The Government took the decision to maintain the tax-free threshold at K20,000 per annum. Considering the events of 10 January, the Government has taken certain decisions, one of which is to put on hold the implementation of the dependent rebate repeal. The relevant budget amendments have not been certified yet hence the IRC will not be administering the repeal. Employers are advised to factor in the dependent rebate calculations in the salaries of their employees accordingly. The Salary and Wages Tax Rates Tables A,B and C that were applicable in 2023, will continue to apply in 2024.

- Rewritten Income Tax Act (ITA): New ITA is led by the Treasury and is still under review. There is a 12th draft and this is under consultation with industry. IRC expects the New ITA to be enacted in 2024. It is proposed that the New ITA may be passed in an out of budget sitting in 2024 with implementations on 1 January 2025.
- Tax Administration Act: IRC is on track with completion of all related SOPs (Standard Operating Procedures) and are looking at further amending the 2017 Act as the ruling system is not in the 2017 Act. It was proposed that most likely the 2017 Act will be repealed and a new Tax Administration Act will be enacted with the amendments. The enactment of a new Tax Administration Act will be in line with the New ITA.

Don't miss your deadlines

2024 Provisional tax notice

Companies:

- first provisional tax notice - 29 Apr 2024
- second provisional tax notice - 30 Jul 2024
- third provisional tax notice - 29 Oct 2024

Individuals, Estates and Trusts

- Individuals - 30 Sep 2024
- Estates - 30 Sep 2024
- Trusts - 30 Sep 2024

Income Tax Return lodgements (tax agent program)

- taxable entities - 30 June 2024
- non-taxable entities - 31 July 2024

For substituted accounting period entities, the provisional tax due dates are about four months, seven months and ten months after the preceding balance date, whilst the tax return lodgement date is four months after balance date for taxable entities.

2022 Annual reconciliations

- SWT Form S6 and S1 - 14 Feb 2024
- DWT Form D2 - 28 Feb 2024
- FCWT Form F2 - 28 Feb 2024
- MFWT Form M2 - 28 Feb 2024
- IWT Form I2 - 28 Feb 2024
- RWT Form R2 - 28 Feb 2024
- BIPT Form P8 - 15 Mar 2024

EPB Events

We have had a few events over the past few months, including this month, with a session in February 2024.

1. **Young Port Moresby Chamber of Commerce & Industry (YPOMCCI)**
On February 29, 2024 our team had the opportunity to present at the YPOMCCI to young Papua New Guineans on the Theme; Know Your Taxes "What you need to know about your salaries and wages Tax". The session was provided in partnership with PwC and the YPOMCCI.
2. **PwC 2024 NextGen Academy**
In our November newsletter we announced details of our 2024 NextGen Academies, which will take place at **Columbia Business School** New York in June (ages 21-28) and at **IMD Lausanne** in August (ages 28-early 40s). Since then, we have received applications from Australia, Cameroon, Canada, China, Germany, Hong Kong, PNG, Poland, Romania, Saudi Arabia, Spain and Taiwan. More than one-third – 36% – of these are repeat attendees or programme referrals.

The PwC NextGen Academy is a unique and exclusive one-week training event in cooperation with top ranked business schools around the world.

PwC NextGen is a hugely powerful tool for taking your conversations with business owners to the next level, and for demonstrating our commitment and capacities in local markets.

To learn more about the NextGen Academy please visit this [link](#).

3. **Global webinar**
Since 2021, we've marked the start of each year by exploring the top five issues for private and family businesses to address in the coming year. PwC's focus in 2024 is on how private businesses can deliver these five key priorities; *Adopt GenAI, Accelerate climate action, Undertake strategic workforce planning, Consider new external sources of funding and Become more realistic about risks -especially short-term ones.*

To get a full understanding of the five key priorities for private businesses the link to this article is found [here](#).

4. **Business roundtable breakfast discussion (Lae)**

We held a business roundtable breakfast discussion in Lae on Tuesday 9 April to discuss the opportunities that are available in the market that are potentially coming to fruition in the shorter term. Obviously there are a number of challenges to overcome as well which we also discussed.

These sessions will continue on a regular basis, and if you are interested in taking part, please feel free to contact Michael Collins on email michael.j.collins@pwc.com or via mobile +675 7092 0915.

5. **POMCCI Breakfast**

On April 18, 2024 our team had the opportunity to present at the POMCCI breakfast on the topic of our PwC PGN 3rd Family Business Survey. The session was provided in partnership with PwC and POMCCI.

A copy of our survey report can be found here:

Just a reminder that our next survey will be open again later this year. Again if you are interested in taking part then please let us know.



We would like to hear from you

At PwC, we get that your decisions aren't always about business. We are here to support you in achieving growth today, whilst helping you shape your legacy for the future. Our EPB teams in Port Moresby are wholly focused on providing advisory, accounting and tax services to private and family businesses.

Please do not hesitate to contact us if you have questions, queries, or comments on our events or any changes that have an impact on your business.

Contacts

Jonathan Seeto
Territory Senior Partner
jonathan.seeto@pwc.com

Michael Collins
Partner
michael.j.collins@pwc.com

www.pwc.com/pg

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